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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000408

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STATE FOR NEA/ARPI (RSMYTH)  
STATE PASS USTR FOR SDONNELLY, DBELL, KCLAYMAN  
TREASURY FOR SLEVEY, RWERNER, JHINDI, WLANGFORD, PBROWN

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TAGS: [EFIN](#) [PTER](#) [ETRD](#) [ECON](#) [AE](#)  
SUBJECT: TREASURY U/S LEVEY MEETS WITH ADIA

REF: 05 ABU DHABI 4105

Classified By: AMBASSADOR MICHELE J. SISON FOR REASONS 1.4 B & D

¶1. (U) This is an action request. Please see paragraph 9.

¶2. (C) Summary. On January 24, Treasury Under Secretary Stuart Levey met with Abu Dhabi Investment Authority (ADIA) officials to discuss security of assets and tax issues in the context of ongoing U.S. - UAE FTA negotiations. ADIA officials explained that they were not seeking a prohibition on freezing UAEG assets or even prior notification, but that they were seeking a transparent way to resolve any asset freezes that might occur. In response to U/S Levey's questions, they acknowledged that the risk of asset freezing was slight, but stressed that they were dealing with a perception on the part of Emiratis that the risk was greater than it might be in reality. They also implied that resolution could increase ADIA's investments in the U.S. (currently around a third of their portfolio). End summary.

¶3. (SBU) Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey met with Abu Dhabi Investment Authority (ADIA) Executive Director Salem Al-Mazroui, ADIA Senior Legal Advisor William Brown, and ADIA Tax Advisor Robert Peake on January 24 to discuss security of assets and tax issues related to the Free Trade Agreement being negotiated with the UAE. Al-Mazroui noted that ADIA had had good discussions with representatives from Treasury's Office of Foreign Assets Control (OFAC) during the January 16-17 FTA finance discussions in Washington, but also wanted to explain their concerns to U/S Levey (Note: OFAC Director Werner was not at the Jan 16-17 meetings). U/S Levey replied that the USG viewed the UAE as partners and that, even without an FTA, the UAE should always feel free to discuss its concerns with the USG. Al-Mazroui stated that the tax discussions had gone well from ADIA's specific point of view, though he cautioned that he was not speaking for the UAEG as a whole on tax.

¶4. (SBU) Al-Mazroui then turned the discussion to security of ADIA's assets from freezing or seizure. He explained that he wanted ADIA and the UAEG in general to feel more comfort that the U.S. was a safe investment destination. He emphasized that every time the U.S. froze assets it had an impact on investor confidence. U/S Levey acknowledged the risk to investor confidence, but stated that he believed and knew that Treasury Secretary Snow believed that the U.S. was still a safe and appealing investment destination, and were committed to keeping it that way. Levey added that -- statistically -- the risk of ADIA assets being frozen was slight, adding that he understood that the UAE had been affected when the U.S. froze the assets of ARBIFT. Levey asked if Al-Mazroui could enlighten him on where ADIA saw the

risk.

15. (C) Al-Mazroui noted that as a global financial institution, ADIA invested everywhere and could wind up partnering with a country that the U.S. would later decide to act against. He turned the discussion over to Brown to give a more detailed description of ADIA. Brown explained that ADIA was the investment arm of the Emirate of Abu Dhabi and the way that Abu Dhabi "monetized" surplus funds from its oil exports. As such, he added, ADIA had a special status, participating as part of the UAE negotiating team in tax treaty or FTA negotiations, for example. He said that ADIA was one of only three Abu Dhabi government entities that were responsible for the Emirate's revenues and expenditures. The Abu Dhabi National Oil Company (ADNOC) sends surplus funds to ADIA. ADIA invests and manages the funds -- and serves as a "checkbook" for the government. The Abu Dhabi Department of Finance handles the budget for the Emirate of Abu Dhabi and is the only organization that can draw from ADIA's assets. (Note: Brown's remarks track what the Under Secretary at the Department of Finance has told us. ADIA gets any budget surplus and finances any deficit. With recent high oil prices, Abu Dhabi's budget has moved back into surplus and Abu Dhabi is again paying into its investment fund. Because the Emirate of Abu Dhabi directly and indirectly funds much of the UAE's federal expenditures, ADIA is by extension the "check book" for the UAE. End Note.)

16. (C) Brown acknowledged that the risk to ADIA of having its assets frozen was slight. It was the perception of risk, however, that ADIA was trying to deal with. Brown said that over 80% of ADIA's large portfolio was in market traded securities. The rest was in real estate, private equities, and other alternative investments. Generally, he said,

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ADIA's strategic plan called for investing about one-third of its assets in the U.S. As the portfolio increased, however, he explained that ADIA had difficulties maintaining or expanding its U.S. investment base if it could not moderate its investment risk (including the risk of an asset freeze.) Peake added that as ADIA continues to develop its asset base, it could invest in a joint venture or private equity arrangement, where the USG had -- or developed -- concerns about some of the partners. In that case, he said, ADIA's assets -- and reputation -- could be compromised. Ideally, the USG would let ADIA know of its concerns and ADIA could extricate itself. He speculated that a lack of clear communication had hindered the UAE's and the USG's ability to resolve the freeze of ARBIFT's assets.

17. (SBU) Brown explained that ADIA was looking for a consultation mechanism should assets be frozen. He noted that Central Bank Governor Sultan Nasser Al-Suwaidi (a former ADIA employee) had wanted the U.S. to provide prior notification before freezing any assets, but that ADIA had argued that the USG would not be able to agree to this condition. ADIA drafted a side letter to the FTA, which the UAE presented in the May 2005 FTA negotiating round. The letter states "No party shall continue to hold any such assets which it contends are subject to seizure for a period greater than 30 days without establishing the propriety of such seizure under standards and procedures to be mutually agreed upon not later than 180 days following the entry into force of the Agreement (FTA)." Brown briefly described what he saw as the "standards and procedures." What the UAE was asking for was an "obligation to consult" after assets were frozen, but not an "obligation to remedy." If the U.S. wanted to continue to freeze the assets of an ally after high-level consultations, he noted, it could continue to do so. The consultation mechanism, however, would give a transparent way for both sides to try and resolve the problem. Brown suggested that the first round of consultation would be the "Financial Services Committee" provided for in the FTA. The next level up would likely be at the undersecretary level (or possibly the ministerial

level for the UAE) and the third level would be at the political level (i.e., the Secretary of Treasury for the U.S.).

18. (SBU) U/S Levey said that he understood ADIA's concerns, although he stressed that the risk appeared to be "miiscule." He said that he was open to the idea of rying to work something out that could address the UAE's concerns, but stressed that any decision would need to be an interagency one.

19. (C) Action Request: This continues to be an important issue for the UAE. Post requests Washington interagency guidance as to whether the UAE's proposal is workable or desirable, both from a bilateral relations perspective and from the perspective of removing one of the UAE's concerns impeding negotiations of an FTA with the U.S. End Action Request.  
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